

Emerging Markets Queries in Finance and Business

# Assessing corporate social performance from a contingency theory perspective

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## Abstract

This article proposes a model of corporate social performance assessment from a contingency theory perspective, given that most studies focus on explaining the relationship between social performance and development. The results of this study support the contingency financial results of corporations. The study examines corporate social performance by referencing the influence of contingent variables, both internal and external, such as the business model, organizational culture, leadership, total quality management, cultural diversity, and research and theory, and highlights the role of these factors in enhancing corporate social performance and eases the process of ranking organizations with an important role in emerging markets based on social performance.

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## 1. Introduction

Literature highlights significant concerns towards identifying determinants of economic, social and environmental performance of enterprises, towards obtaining "the highest standards that an organization can have, standards that exceed the requirements or expectations of others", Withmore, 2011. It is clear to all that

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"a company exists not only as an economic entity, but also has other social responsibilities to various stakeholders and the environment", Nin Ho et al., 2012.

"In the context of increasing globalization, corporate social responsibility is becoming a concept with deeper importance for issues of competitiveness and competition, security, financial stability and good relationship with the environment. In this context, policies regarding the quantification of social performance of companies, policies that measure the extent to which organizations, management and equipment are performing in order to protect the environment are gaining in importance", Cismaş and Stan, 2010.

Given that most literature studies focus more on the relationship between social performance and financial results, and less on determining the factors that influence corporate social performance, the present scientific approach is attempting to reduce these limits.

## **2. The concept of corporate social performance**

Literature shows a strong concern in explaining the content and role of corporate social performance, but also in measuring it. The creator of the concept, Sethi, 1975 did not propose a definition of corporate social performance, but three categories defensive, reactive, responsive that can be used to assess an organization focused on social action. Frederick, 1978 explained that corporate social responsiveness is very important in research on corporate social performance, and Carroll, 1979 brought forward the three-dimensional model in an attempt to explain social performance with reference to three elements: social responsibility, social objectives and social responsiveness.

The central ideas of corporate social performance are "acknowledging ethical obligations of organizations and the need to respond to social pressures in a pragmatic manner", Cochran, 2007; "integrating the principles of social responsibility, the processes of social responsiveness and the programs and policies used to achieve social goals", Wartick and Cochran, 1985; "company relationships with its customers and other stakeholders", Zeller et al., 2003; "the response process of corporate affairs, and the structure solution of social relations and business-related policies, projects, as well as observations in enterprises", Zhang and Ma, 2011; "social issues that are related to the environmental, strategic governance, labour relations, and stakeholder management", Nin Ho et al., 2012.

A pioneer in assessing social performance, the social performance assessment model created by Donna Wood in 1991 is one of the most popular as well. According to this model, corporate social performance can be determined based on: CSR principles guiding company activities, corporate social responsiveness processes and results. Social policies define the values, beliefs and goals of the organization in connection to social environment, social programs include sets of practical steps to implement corporate social policies, and social impacts include specific changes that a company has generated through the implementation of its programs in a period of time, Wood, 1991. In another view, the three-dimensional model of corporate social performance includes: corporate social responsibility performance, corporate social responsibility and the process affecting corporate social responsibility as well as the principles of corporate responsibility composition, Zhang and Ma, 2011.

Most of the research aimed at determining the relationship between corporate social performance and financial performance shows a positive correlation between social and financial performance, Orlitzky et al., 2003, Soana, 2011. Other studies seek to explain the impact of stakeholder perceptions of company attitude, Sen et al., 2006, the influence of consumer perceptions on trust in the organization, Vlachos et al., 2009, brand equity and reputation, Wang, 2010 or the influence of cultural differences of each country on social performance, Hofstede, 1985, Scholtens and Dam, 2007.

Measuring corporate social performance is a very complex task. Corporate social performance is a "multidimensional construct", Waddock and Graves, 1997, based on very different elements, such as "inputs, internal behaviours or processes and outputs; outreach to the poor and excluded, adaptation of the services and

products to the target clients, improving social and political capital of clients and communities and social responsibility of MFI", Zeller et al., 2003; „intent and design, activities, output, outcome-impact", Hashemi et al., 2006.

These dimensions translate into corporate social performance indicators. Internationally there are some guidelines that allow organizations to target their responsible practices and to achieve high social performance Global Reporting Initiative, United National Global Compact. Organizations can also use their own social performance metrics, useful in sustainability reporting. The United States Agency for International Development proposed such an instrument to measure social performance of organizations, which includes three components managed in separate stages: "social performance score determination, social audit and obtaining a standardized social rating", Woller, 2006. Other research uses reputation indexes and databases such as The Kinder, Lydenberg and Domini Database, the Fortune Index Database and the Canadian Social Investment Database, Turker, 2009. Corporate social performance is assessed using five different methods: content analysis, questionnaire based surveys, reputation measurement, one-dimensional indicators and evaluation of ethics based on multidimensional indexes, Soana, 2011. The purpose of some of these researches was to even measure social performance in organizations belonging to different industries, both manufacturing and services, Mahon and Wartick, 2012.

### **3. Contingency theory and corporate social performance**

Contingency theory is the concern of many authors and is explained in various ways: "optimum management or organization is subject to various internal and external constraints", Fiedler, 1964, "the best way of organizing depends on the environment the organization operates in", Scott, 1992, "the effectiveness of the solution depends on the conditions under which the solution is implemented", Galbraith, 1973. Contingency theory is applied to highlight organizational change, Battilana and Casciaro, 2012, how human development affects state corruption, Sims et al., 2012, the implementation of organizational leadership, Fiedler, 1964 or the way to determine organizational design, Donaldson, 2006. Studies use models with two or more contingency variables: the double-variable models exclude the emergence of new variables, while multi-variable models use statistical examination to assess the impact of each variable, Pennings, 1987. Some contingency factors, either internal or external, can influence an organization's performance. Organizational culture, management strategies and financial performance, and "humanistic culture" influence corporate social performance, Melo and Garrido-Morgado, 2012; the quantity and quality of corporate social reporting is positively correlated with social performance, Ullmann, 1985; "criteria of meeting stakeholder needs are long term performance indicators", Glunk and Heijltjes, 2009; total quality management has significant impact on organizational performance, Al-Swidi and Mahmood, 2012 and contributes to increased performance; effectiveness of internal control may be analysed in terms of contingency theory, Jokipii, 2010. The analysis of corporate social performance in terms of contingency theory, Husted, 2000 supports the importance of drawing strategies according to the nature of social problems; contingent approach of social performance is crucial for managers who want to respond to social pressure and improve their social performance, Neville, 2005.

### **4. Methodology and results**

With this study, we aim to investigate the influence of contingent factors on corporate social performance, using the example of 13 companies operating in the European automotive industry in developed and emerging economies. The purpose of the research is to test hypothesis largely supported by researchers in the field, namely: the connection between business models based on innovation in research and development, organizational culture and total quality management, as contingent factors and independent variables, on one hand, and corporate social performance as dependent variable, on the other hand.

A social performance index was created to assess corporate social performance, based on the content analysis of reports published by these companies for 2010; evaluation criteria were set for each contingency factor. The social performance index was calculated after analyzing three indicators: share of women in total number of employees, number of hours of training and frequency of accidents. To evaluate the business model we used nine criteria: value proposition, market section, communication and distribution channels, customer relationships, key resources needed for the business model, key activities necessary to implement the business model, business partners and their motivations, revenue generated by the business model and cost structure", Osterwalder et al., 2005; to assess organizational culture we used four criteria: behavior norms, symbols, rituals and ceremonies, prestige and authority, Puiu, 2007; total quality management was assessed based on four evaluation criteria such as: meeting customer needs and aspirations, balance in addressing stakeholder needs, evaluation of customer satisfaction, creating added value for customers. We calculated individual scores for the three independent variables by reporting the number of criteria met by the total number of criteria for each variable, Vintilă et al., 2012.

The following model validates research hypotheses:

$$CSP_i = \alpha_0 + \beta_1 \cdot BM_i + \beta_2 \cdot OC_i + \beta_3 \cdot TQM_i + \varepsilon_i \quad (1)$$

CSP = corporate social performance; BM = business model; OC = organizational culture; TQM = total quality management;  $\varepsilon_i$  = error; i = business.

Table 1. Results table

Regression Statistics								
Multiple R	0,955							
R Square	0,912							
Adjusted R Square	0,883							
Standard Error	0,070							
Observations	13							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	3	0,452	0,151	31,215	0,000044			
Residual	9	0,043	0,005					
Total	12	0,496						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	-0,193	0,097	-1,987	0,078	-0,412	0,027	-0,412	0,027
BM	0,267	0,194	1,372	0,203	-0,173	0,707	-0,173	0,707
OC	0,472	0,223	2,111	0,064	-0,034	0,977	-0,034	0,977
TQM	0,494	0,150	3,285	0,009	0,154	0,834	0,154	0,834

The multiple correlation coefficient  $r$  is greater than 0, which means that there is a direct relationship between variables. The coefficient of determination  $RSquare$  is 0,912 and means that 91,2% of the variation in corporate social enterprise performance can be explained using analyzed variables. The 0,883 adjusted correlation ratio shows that the total variance is generated by the regression line, given the number of degrees of freedom. The  $F$  test shows the role of independent variables in explaining the evolution of the dependent variable. The values of the  $F$  test 31,215 and of the significance threshold 0,000044  $< 0,05$  shows that the regression model is valid and can be used to analyze dependence between variables. The free term, the coefficient  $b = -0,193$ , is the point where the explanatory variable is 0. Because  $t$ -Statistic = -1,987 and  $P$  value = 0,078  $> 0,05$ , this coefficient is insignificant, in a confidence interval of -0,412; 0,027. The coefficient of the

business model variable has a value of 0,267, which means that an increase of one unit of the business model variable unit will increase the CSP variable by 0,267. Because  $P\text{-value} = 0,203 > 0,05$ , this coefficient is insignificant. The confidence interval for the business model variable is -0,173; 0,707. The coefficient corresponding to the independent variable has a value of 0,472, so a one unit increase of OC will generate a 0,472 increase of CSP. Since  $P\text{-value} = 0,064 > 0,05$ , the coefficient is insignificant in a confidence interval of -0,034; 0,977. The coefficient that describes the TQM variable is 0,494.  $P\text{-value} = 0,009 < 0,05$ , indicating that it is significantly different from 0 and is in the 0,154; 0,834 confidence interval. The following regression model results after analysis of coefficients:

$$CSP = -0,193 + 0,267 \bullet BM + 0,472 \bullet OC + 0,494 \bullet TQM \quad (2)$$

## 5. Conclusions

This study demonstrates at empirical level that social performance can be significantly influenced by business model, organizational culture and total quality management. Analysis of data reported by companies operating in the European automotive industry shows that those organizations that have business models oriented towards innovation, respect and care for the needs of stakeholders, that are aimed at supporting strategic R & D, who develop a strong and positive organizational culture, and apply total quality management requirements are the ones that get outstanding social performance.

This study allows us to appreciate that organizations who are aware of the role that corporate social responsibility has are likely to grow in a sustainable fashion. The model we propose can be easily applied to transparent organizations regardless of business sector and can help create corporate rankings, regardless of markets.

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